

Message Text

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FM AMEMBASSY DUBLIN

TO SECSTATE WASHDC 0938

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

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TAGS: ECON, EFIN, EI

SUBJECT: IRISH ECONOMIC INDICATORS: MID-SUMMER REVIEW

REFS: A) DUBLIN 1247; B) DUBLIN 2397; C) DUBLIN 2032;

D) DUBLIN 390; E) DUBLIN 141; F) DUBLIN A-26

1. SUMMARY AND COMMENT: DATA AVAILABLE AT MID-YEAR
INDICATE THAT THE IRISH ECONOMY CONTINUES ON AN IMPRESSIVE
GROWTHPATH. REAL GNP GROWTH IS LIKELY TO FALL SLIGHTLY
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SHORT OF THE GOVERNMENT'S AMBITIOUS SEVEN PERCENT TARGET,
BUT A HEALTHY SIX PERCENT MAY WELL BE ACHIEVED. LIKEWISE,
THE GOVERNMENT'S GOAL OF CREATING 25,000 NET NEW JOBS
BETWEEN JULY 1977 AND DECEMBER 1978 MAY NOT BE FULLY
ACCOMPLISHED, BUT UNEMPLOYMENT FELL AT MID-YEAR TO THE
LOWEST LEVEL IN OVER THREE YEARS (JUST BELOW NINE PERCENT).
THE RECENTLY RELEASED GOVERNMENT GREEN PAPER ON THE

ECONOMY AMBITIOUSLY (MANY WOULD SAY UNREALISTICALLY) PROPOSES TO ELIMINATE UNEMPLOYMENT WITHIN FIVE YEARS; THE SPECIFICS OF THE PROGRAM ARE TO BE DISCUSSED WITH LABOR, BUSINESS AND FARMING REPRESENTATIVES THIS FALL (REF C). THE CONSUMER PRICE INDEX REFLECTS A DRAMATIC DECLINE IN THE INFLATION RATE THIS YEAR, WITH THE CPI UP JUST 7.2 PERCENT FOR JANUARY - JUNE 1978 AS COMPARED WITH THE FIRST SIX MONTHS OF 1977. THE BALANCE OF PAYMENTS IS A POTENTIAL PROBLEM, BUT APPEARS UNLIKELY TO POSE ANY SERIOUS POLICY CONSTRAINTS THIS YEAR. THE GOVERNMENT HAS REFINANCED A RATHER HEAVY FOREIGN DEBT SERVICE REQUIREMENT FOR 1978-80 ON FAVORABLE TERMS, THEREBY RELIEVING ONE SOURCE OF PRESSURE IN THE EXTERNAL SECTOR. EXPORT GROWTH REMAINS STRONG (UP 20 PERCENT SO FAR THIS YEAR), BUT STRONG DOMESTIC DEMAND HAS ALSO BOOSTED IMPORTS AND THE CURRENT ACCOUNT DEFICIT CLIMBED 11 PERCENT DURING THE FIRST SEVEN MONTHS. LABOR DISPUTES CONTINUE TO TROUBLE THE ECONOMY, AND MAN-HOURS LOST DUE TO INDUSTRIAL ACTION INCREASED SEVEN PERCENT DURING THE FIRST HALF COMPARED TO THE SAME PERIOD IN 1977. TELEPHONE/TELEX SERVICE, AIR/SEA TRANSPORT AND ELECTRICITY SUPPLY HAVE ALL SUFFERED DISRUPTION. NONETHELESS, AVAILABLE DATA INDICATE THAT BOTH DOMESTIC AND FOREIGN INVESTMENT ARE HOLDING UP WELL. AN ENERGY POLICY PAPER ISSUED BY THE GOVERNMENT IN JULY MAKES A STRONG CASE TO REDUCE DEPENDENCE UPON OIL IMPORTS BY DEVELOPING IRELAND'S FIRST LIMITED OFFICIAL USE

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NUCLEAR-POWER PLANT. AT LEAST A CONDITIONAL GREEN LIGHT FOR THE PROJECT IS EXPECTED LATER THIS YEAR THOUGH OPPOSITION TO IT IS BECOMING MORE VOCAL AND ORGANIZED. A MAJOR QUESTION CONCERNING OVERALL ECONOMIC STRATEGY WHICH WILL HAVE TO BE FACED BY THE GOVERNMENT IN THE NEAR FUTURE IS THE DEGREE OF COMPATIBILITY BETWEEN ITS VERY AMBITIOUS GOALS FOR GNP GROWTH AND JOB CREATION AND ITS COMMITMENT TO DRAMATICALLY REDUCE THE BUDGET AS A PERCENT OF GNP BY 1980. A MID-SUMMER SURVEY OF SIGNIFICANT ECONOMIC INDICATORS FOLLOWS. END SUMMARY.

2. OUTPUT AND DEMAND:

A) GNP - SEVERAL RECENT INDEPENDENT ECONOMIC ANALYSES HAVE CALLED INTO QUESTION THE ACHIEVABILITY OF THE GOI'S SEVEN PERCENT REAL GROWTH RATE TARGET FOR 1978 AND 1979. IN ITS JULY FORECAST THE DEPARTMENT OF FINANCE CONCEDES THAT NEITHER INTERNAL NOR EXTERNAL DEVELOPMENTS HAVE BEEN AS FAVORABLE AS APPEARED POSSIBLE IN JANUARY, AND PREDICTS ONLY THAT THE OUTCOME FOR THE YEAR SHOULD BE BROADLY IN LINE WITH THE GOVERNMENT'S MAIN TARGETS FOR THE ECONOMY. FINANCE OFFICIALS HAVE DRAWN SOME CHEER FROM IMPROVED FORECASTS FOR THE UK ECONOMY (TO WHICH

ALMOST 50 PERCENT OF IRELAND'S EXPORTS ARE DESTINED).
DESPITE SKEPTICISM OVER THE GOVERNMENT'S SPECIFIC GOALS,
THE ECONOMY CLEARLY REMAINS ON AN IMPRESSIVE GROWTH PATH,
AND A REAL GNP GROWTH RATE OF AS HIGH AS SIX PERCENT
STILL APPEARS POSSIBLE IN 1978. LONGER TERM DEVELOPMENTS
IN THIS SMALL, VERY OPEN ECONOMY WILL BE GREATLY
INFLUENCED BY INTERNATIONAL ECONOMIC TRENDS, PARTICULARLY
BY THOSE IN OTHER EEC COUNTRIES.

B) INDUSTRIAL PRODUCTION (SEASONALLY ADJUSTED) - THE
STRONG UPWARD TREND CONTINUES WITH INDUSTRIAL OUTPUT
(VOLUME) IN THE FIRST QUARTER OF 1978 11.7 PERCENT
HIGHER THAN IN THE SAME PERIOD IN 1977 -- SLIGHTLY OVER
THE GOVERNMENT'S TARGET GROWTH RATE FOR THE
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INDUSTRIAL SECTOR IN 1978.

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C) INVESTMENT - HARD DATA ARE NOT AVAILABLE, BUT IMPORTS OF PRODUCERS' CAPITAL GOODS WERE UP 23 PERCENT IN THE FIRST FOUR MONTHS OF 1978 OVER THE SAME PERIOD IN 1977, AND CEMENT SALES FOR THE FIRST SIX MONTHS WERE UP 18 PERCENT. THE STOCK MARKET HAS CONTINUED ITS STRONG UPWARD TREND, AND IN THE 12 MONTHS TO JUNE 1978 THE VALUE OF SHARES QUOTED ON THE IRISH EXCHANGE INCREASED MORE THAN 50 PERCENT. INCREASED INTEREST RATES AND A VERY TIGHT MORTGAGE SITUATION MAY OFFSET SOMEWHAT THE BUOYANCY OF THE EARLY PART OF THE YEAR. TOTAL INVESTMENT, IN REAL LIMITED OFFICIAL USE

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TERMS, SEEMS LIKELY TO CLIMB ABOUT 10 PERCENT THIS YEAR. THE GOVERNMENT TARGET IS 12 PERCENT.

D) RETAIL SALES INDEX (SEASONALLY ADJUSTED) - RETAIL SALES (VOLUME) FOR THE FIRST FOUR MONTHS EXCEEDED THOSE FOR THE COMPARABLE PERIOD IN 1977 BY 7.4 PERCENT. CONSUMER DEMAND IS BEING STIMULATED BY INCREASED DISPOSABLE INCOME THROUGH GROWTH OF THE ECONOMY, TAX CUTS AND THE NEW NATIONAL WAGE SETTLEMENT.

3. PRICE INDICES: THE CONSUMER PRICE INDEX ROSE 7.2 PERCENT FOR THE FIRST SIX MONTHS OF 1978 COMPARED TO JANUARY - JUNE 1977, AND FOR THE SECOND QUARTER 1978 VS THE SECOND QUARTER 1977 THE RATE OF INCREASE DROPPED TO 6.1 PERCENT. THE DOWNWARD TURN IN THE INFLATION RATE HAS BEEN STEEPENED SOMEWHAT BY THIS YEAR'S TAX REDUCTIONS. INFLATION WILL PROBABLY SLIGHTLY EXCEED THE GOVERNMENT'S TARGET OF SEVEN PERCENT FOR THE YEAR DUE TO A HIGHER THAN HOPED FOR (BY THE GOI) NATIONAL WAGE SETTLEMENT.

4. MONEY SUPPLY: MOST RECENT CENTRAL BANK FIGURES PUT INCREASE IN M1 AT 25 PERCENT (TO 983 MILLION POUNDS) FOR MAY 1977 - MAY 1978. M3 INCREASED BY 16 PERCENT OVER THE SAME PERIOD TO 3.4 BILLION POUNDS. THE INCREASES DURING THE FIRST FIVE MONTHS OF 1978 IN M1 AND M3 WERE, HOWEVER, VERY MODEST. INTEREST RATES INCREASED DRAMATICALLY DURING THE FIRST SIX MONTHS OF 1978, FOLLOWING INCREASES IN THE UK (DUE TO THE LINK BETWEEN THE IRISH AND BRITISH POUNDS). BY LATE JUNE THE CENTRAL BANK REDISCOUNT RATE HAD CLIMBED TO 9.05 PERCENT FROM 6.75 PERCENT IN APRIL; TERM LOANS TO ONE YEAR (AAA) TO

10.5 PERCENT, AND FOR FIVE TO SEVEN YEARS (AAA) TO 12
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PERCENT.

5. CENTRAL GOVERNMENT FINANCE: TOTAL REVENUE FOR THE FIRST SIX MONTHS GREW BY 15 PERCENT OVER THE SAME PERIOD OF LAST YEAR TO 980 MILLION POUNDS. THE HIGHER THAN PLANNED INCREASES IN THE NATIONAL WAGE AGREEMENT RESULTED IN BOTH REVENUE AND CURRENT EXPENDITURES EXCEEDING ORIGINAL PROJECTIONS. THE CURRENT BUDGET DEFICIT AMOUNTED TO 188 MILLION POUNDS, ROUGHLY AS EXPECTED, AND THE GOVERNMENT APPEARS TO BE ON COURSE FOR ITS ESTIMATE OF A CURRENT ACCOUNT DEFICIT OF 405 MILLION POUNDS FOR THE YEAR. (INCLUSION OF CAPITAL SPENDING WILL BRING THE TOTAL BUDGET DEFICIT TO 821 MILLION POUNDS, 50 PERCENT OVER 1977 AND 13 PERCENT OF PROJECTED GNP). THE GOI IS ATTEMPTING TO FINANCE AS MUCH OF THE DEFICIT AS POSSIBLE DOMESTICALLY. SALES OF GOVERNMENT STOCKS REACHED 250 MILLION POUNDS FOR JANUARY-JULY AND EXPECTATIONS ARE FOR SALES OF AT LEAST 300 MILLION POUNDS FOR THE YEAR, AND THE CENTRAL BANK WILL PROVIDE A 100 MILLION POUND LOAN. THE \$300 MILLION EURO-DOLLAR LOAN (DUBLIN 390) RENEGOTIATED LAST YEAR HAS BEEN DRAWN DOWN. THIS STILL LEAVES A SUBSTANTIAL FUNDING GAP TO BE COVERED FOR 1978. IT APPEARS ALMOST CERTAIN THAT THE GOVERNMENT WILL BE IMPOSING SOME TAX INCREASES IN THE NEAR FUTURE, BUT THESE PROBABLY WILL NOT TAKE EFFECT UNTIL 1979. IN JULY THE GOI SIGNED AGREEMENTS FOR THREE INFRASTRUCTURE DEVELOPMENT LOANS TOTALLING 30 MILLION POUNDS WITH THE EUROPEAN INVESTMENT BANK. TWENTY MILLION POUNDS WILL GOTO THE DEVELOPMENT OF THE CORK HARBOR AREA, AND 10 MILLION FOR ROAD IMPROVEMENT. THIS WILL BRING TOTAL EIB ASSISTANCE SINCE 1973 TO IRELAND TO 182 MILLION POUNDS.

6. ENERGY: THE GOVERNMENT PUBLISHED ITS LONG - AWAITED DISCUSSION DOCUMENT ON "SOME CURRENT ENERGY PROBLEMS AND

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OPTIONS" IN LATE JULY. THE DOCUMENT ARGUES STRONGLY THAT IRELAND SHOULD PROCEED WITH ITS FIRST NUCLEAR PLANT. THE EMBASSY EXPECTS THAT THE GOVERNMENT LATER THIS YEAR WILL AUTHORIZE THE ELECTRICITY SUPPLY BOARD TO SELECT A CONTRACTOR, BUT WITH A FULL REASSESSMENT IN TWO YEARS TIME BEFORE ANY FINAL CONTRACTUAL COMMITMENT. THE PROPOSAL OF A TWO-YEAR REVIEW PERIOD IS MOTIVATED BY SENSITIVITY TOWARDS A SMALL BUT VOCAL OPPOSITION, AND EVEN MORE SO BY A DESIRE TO EVALUATE THE RESULTS OF CURRENT OFFSHORE HYDROCARBON EXPLORATION. (SEE REFS A LIMITED OFFICIAL USE

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AND B). A THREE-DAY RALLY OF ANTI-NUCLEAR GROUPS DURING AUGUST 18-20 ATTRACTED A CROWD RANGING FROM ABOUT 5000 TO 10,000, AND THE FINE GAEL PARTY CALLED FOR AN INDEPENDENT INQUIRY INTO THE PROJECT ON AUGUST 21.

7. LABOR: A) UNEMPLOYMENT - THE GOVERNMENT CONTINUES TO EMPHASIZE UNEMPLOYMENT AS THE NATION'S SINGLE MOST IMPORTANT PROBLEM. THE NUMBER OF PERSONS ON THE "LIVE REGISTER", A SURROGATE FIGURE FOR THE UNEMPLOYED, DROPPED BELOW 100,000 FOR THE FIRST TIME IN 3 1/2 YEARS IN JUNE. AS OF MID-AUGUST THE FIGURE STOOD AT 99,537, A NINE PERCENT (OVER 10,000) DROP COMPARED TO 12 MONTHS

EARLIER. THIS BRINGS THE UNEMPLOYMENT RATE TO SLIGHTLY BELOW NINE PERCENT. SHORTAGES OF SKILLED WORKERS ARE BEING REPORTED IN SOME FIELDS. THE GOVERNMENT'S TARGET FOR REDUCTION OF UNEMPLOYMENT WAS 5,000 IN THE SECOND HALF OF 1977 AND 20,000 IN 1978. IN ADDITION TO THIS ALREADY AMBITIOUS TASK THE GOVERNMENT PROPOSED IN ITS RECENTLY RELEASED GREEN PAPER (DUBLIN 2032) TO ELIMINATE UNEMPLOYMENT BY 1983. LABOR HAS EXHIBITED A NOTABLE LACK OF ENTHUSIASM FOR CERTAIN ASPECTS OF THE GREEN PAPER, PARTICULARLY THE RELATIVELY LOW PRIORITY GIVEN THE IMPROVEMENT OF SOCIAL SERVICES AND THE PAPER'S PROPOSAL FOR WORK SHARING. A MAJOR QUESTION FOR THE MEDIUM-TERM IS THE DEGREE OF COMPATIBILITY BETWEEN THE GOVERNMENT'S VERY AMBITIOUS GOALS FOR GNP GROWTH AND JOBCREATION AND ITS COMMITMENT TO DRAMATICALLY REDUCE THE BUDGET DEFICIT AS A PERCENT OF GNP BY 1980.

B) STRIKES - THE FIRST SIX MONTHS OF 1978 HAVE BEEN MARKED BY A NUMBER OF SERIOUS LABOR DISPUTES. A POSTAL TECHNICIANS' DISPUTE WHICH HAS STILL NOT BEEN FULLY LIMITED OFFICIAL USE

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RESOLVED DISRUPTED TELEPHONE AND TELEX SERVICES FOR THREE MONTHS; AN AER LINGUS STRIKE DELAYED/REDUCED PASSENGER AND FREIGHT MOVEMENT FOR SIX WEEKS; AND A WORK TO RULE BY ELECTRICITY SUPPLY BOARD STAFF CAUSED POWER SHORTAGES THROUGHOUT THE COUNTRY IN AUGUST. OTHER MAJOR DISPUTES AFFECTED SEA LINKS WITH THE UK, BUS SERVICE, MAIL DELIVERIES, MINING PRODUCTION AND VARIOUS MANUFACTURERS. AN ESTIMATED 258,000 MAN-DAYS WERE LOST DURING JANUARY-JUNE 1978, UP SEVEN PERCENT FROM THE SAME PERIOD OF 1977. OF A TOTAL 70 STRIKES, 45 WERE UNOFFICIAL.

8. A) TRADE AND PAYMENTS: PROVISIONAL DATA FOR JANUARY-JULY 1978 SHOW EXPORTS UP 20 PERCENT OVER THE SAME PERIOD IN 1977 TO 1.65 BILLION POUNDS. THE IRISH EXPORT BOARD HAS RECENTLY PREDICTED THAT EXPORTS WILL BE UP 27 PERCENT THIS YEAR TO 3.2 BILLION POUNDS. EXPORTS ARE CRUCIAL NOT JUST TO THE BALANCE OF PAYMENTS, BUT TO THE VITALITY OF THE ECONOMY AS A WHOLE -- THEY CONSTITUTED OVER 45 PERCENT OF GNP IN 1977. IMPORTS ROSE 18 PERCENT TO 2.1 BILLION POUNDS FOR THE SAME TIME FRAME. THE TRADE DEFICIT REACHED 480 MILLION POUNDS FOR THE FIRST SEVEN MONTHS, UP 11 PERCENT. SOME EROSION IN THE TRADE ACCOUNT WAS EXPECTED THIS YEAR DUE TO THE SUSTAINED ECONOMIC RECOVERY SINCE MID-1977 AND TO THE RELATED STRENGTH IN DOMESTIC CONSUMER DEMAND AND INVESTMENT. A CURRENT ACCOUNT DEFICIT OF ABOUT 200-220 MILLION

POUNDS IS ANTICIPATED FOR 1978, UP FROM A MUCH-LOWER-
THAN EXPECTED 122 MILLION POUNDS IN 1977. ALTHOUGH
THE CURRENT ACCOUNT DEFICIT WILL BE CLOSELY MONITORED
BY THE GOI, IT APPEARS UNLIKELY THAT THE BALANCE OF
PAYMENTS WILL POSE SERIOUS CONSTRAINTS FOR ECONOMIC
POLICY MAKERS IN THE IMMEDIATE FUTURE.

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B) FOREIGN EXCHANGE RESERVES FELL 13 PERCENT TO 1.04
BILLION POUNDS BETWEEN END YEAR 1977 AND MAY 1978, BUT
THE DECEMBER 1977 LEVEL WAS A RECORD HIGH AND RESERVES
REMAIN ABOVE THE EQUIVALENT OF FOUR MONTH'S IMPORTS.
ON MARCH 31, EXTERNAL GOVERNMENT DEBT OUTSTANDING STOOD
AT 1.15 BILLION POUNDS, A 12 PERCENT RISE SINCE
DECEMBER 31, 1977. STATE SPONSORED BODIES OWED AN
ADDITIONAL 252 MILLION POUNDS. THE GOVERNMENT
RELIEVED PRESSURE FROM HEAVY FOREIGN DEBT REPAYMENT

OBLIGATIONS OVER THE NEXT FEW YEARS (ORIGINAL SCHEDULE
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WAS 162 MILLION POUNDS IN 1978, 289 MILLION IN 1979,
236 MILLION IN 1980) THROUGH REFINANCING. THE NEW
BORROWINGS WERE ARRANGED AT FAVORABLE RATES BY ALLIED
IRISH INVESTMENT BANK (\$250 MILLION) AND S.G. Warburg,
LONDON (\$75 MILLION) AND REPORTEDLY LENGTHEN MATURITIES
AND SAVE \$2 MILLION IN INTEREST.

9. TOURISM: ALTHOUGH CURRENT FIGURES ARE NOT
AVAILABLE, ALL SIGNS POINT TO A STRONG PERFORMANCE BY
THE TOURIST SECTOR THIS YEAR. THE GOI PREDICTS A NINE
PERCENT INCREASE IN VISITORS (TO OVER 2 MILLION) AND
REVENUE SHOULD BE IN THE 250-300 MILLION POUND RANGE DURING
1978. SHANNON

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